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UNCLAS SECTION 01 OF 03 BRATISLAVA 000208

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TREASURY FOR AALIKONIS

USDOC FOR 4232/ITA/MAC/EUR/MROGERS

TAGS: [ECON](#) [ELAB](#) [EINV](#) [ECIN](#) [SOCI](#) [SCUL](#) [LO](#)

SUBJECT: Slovak Labor Woes - Not Enough Workers!

REF: A) Bratislava 144
B) Bratislava 95

¶11. (U) Summary: Slovakia's strong economic growth in recent years, fueled by FDI, has significantly reduced unemployment. In a picture common to the region, Roma, long-term unemployed, and older low-skilled workers are the remaining hard-to-erase pockets of high unemployment. Labor mobility has affected the unemployment rate with large numbers of (previously unemployed) Slovaks leaving the country for the UK, Ireland, and other EU states. However, there is much less mobility across regions of Slovakia. Companies regularly look to neighboring countries for engineers and managers, but rarely hire low-skilled workers from the region. Government plans to strengthen the labor code to 'protect workers' are out-of-sync with the on-the-ground reality that companies are doing all they can to retain current employees and find new workers in a booming economy.
End Summary.

ECONOMY BOOMING AND FIRMS NEED WORKERS

¶12. (U) The Slovak economy has been among the most dynamic in Europe in recent years, with FDI playing a critical role. According to the Statistical Office of Slovakia, the economy grew by 5.4% in 2004, 6.1% in 2005, and 8.3% in 2006. Unemployment has dropped from 14.3% in 2004 (and as high as 19.8% in 2001) to 9.5% in 2006, a record low (see Ref A). Gross FDI inflow easily surpassed 100 billion Slovak Korunas in 2006 (more than \$4 billion), including more than USD 500 million from the U.S.

¶13. (U) Real growth of wages has also been consistently strong, 6.3% in 2005 and 3.3% in 2006. Anecdotal but consistent evidence from the Consular Section's non-immigrant visa interviews shows that both white-collar and blue-collar workers who have applied more than once in the last several years regularly show significant wage growth. This growth exists not only in isolated situations one would expect - such as a person who has gone from an administrative position in a struggling Slovak company to one in a foreign-company and has seen their wage double or triple - but in all sectors, professions and regions due to the booming economy. Nevertheless, productivity growth continues to surpass wage growth and companies continue to invest.

LARGE DIVISIONS BY AGE, RACE AND REGION

¶14. (U) In line with the rest of post-Communist Europe, the newer generations and those with education and useful skills are doing the best in the new economy. According to NGOs and the Ministry of Labor, now that unemployment is down to 9.5%, unemployed individuals mostly consist of a core of long-term unemployed who are older and were only prepared for unskilled manufacturing jobs that no longer exist. Slovakia's Center of Labor, Social Affairs and the Family reports that those 45-54 are the largest group of unemployed (55 and

over are often pensioners). One NGO blames employer-hiring discrimination, but lack of modern skills seems a more convincing explanation.

¶15. (U) The large Roma community, which is estimated by the Demographic Research Center to be 380,000, also stands out for the high levels of unemployment. According to the existing Slovak legislation, it is strictly forbidden to register unemployment statistics of minorities, such as Roma (Act on protection of personal information), so accurate statistics are not available. In a recent report on the living conditions of Roma in Slovakia the UNDP estimates that approximately 72 percent of Roma men and 51 percent of Roma women are unemployed. NGOs put unemployment in Roma settlements, mostly in south-central and eastern Slovakia, as high as 95 percent. The unemployment rates of Roma are significantly lower in big cities, such as Kosice and Bratislava, where demand is strong, primarily in the manufacturing and construction sector, and Roma have benefited from social programs promoting employment.

¶16. (U) The widely discussed east/west divide in unemployment rates exists, though it is more accurate to look at individual regions. Based on the latest February 2007 unemployment data, Bratislava region had a 2.2 percent unemployment rate, in contrast with Banska Bystrica region with 15.81 percent, while the city of Rimavska Sobota south central Slovakia stands out with the highest unemployment rate in all Slovakia of 28.59 percent. Unemployment rates in cities close to highways (Trencin, Zilina, Nove Mesto nad Vahom, and Kosice) decreased significantly in the last years, thanks to the major foreign investors and their network of suppliers creating new employment opportunities. South-central Slovakia has the worst problems with long-term unemployment, mainly due to lack of access to transport infrastructure and thus a lack of foreign investment and job opportunities.

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LABOR FLOWS OUT, BUT RARELY WITHIN THE BORDERS

¶17. (SBU) Internal migration in Slovakia has had only a marginal effect on the diminishing unemployment rate. Analysts agree that to date long-term unemployed workers have not been willing to permanently move to high-employment regions in order to find work. This is explained partly by strong family/social ties to home regions and lack of available housing in the growth regions; also, the spread between wages and social benefits is still not sufficient to motivate available employees to move. Several companies are taking measures to attract workers from around the country. Approximately 20 percent of Volkswagen's workforce commutes back and forth each week from eastern Slovakia by train or bus, with the company providing transport costs and basic accommodation in Bratislava. At Johnson Controls development center in Trencin, newly hired engineers are given an apartment rent free for their first six months so that they will have time to settle in and find their own place in the highly competitive housing market.

¶18. (U) Official statistics on the number of Slovaks working in the EU are not available, as they do not count themselves as permanent emigres and do not register as such with the Slovak authorities. According to leading business daily Hospodarske Noviny, estimates are that 80,000 Slovaks live and work in the UK. Non-official information suggests that a large number also work in Ireland. Among EU countries that have not yet opened their labor markets to Slovakia, Austria is a popular choice (for obvious geographic reasons) for legal and illegal work. A recent newspaper article claims that about 27,000 Slovaks are currently working in Austria, Hungary and Czech Republic (combined), but even this number seems low. No contacts were willing to guess at the number of Poles, Ukrainians and others who are here either legally or illegally, or who commute to work on a daily basis. Companies indicate that they regularly look to the region for engineers and managers, but rarely hire low-skilled workers from surrounding countries.

GOS REFORM PLANS OUT OF TOUCH WITH COMPANY NEEDS

¶9. (U) The coalition led by the center-left Smer (Direction) party, which has been in power since last summer, is less focused on unemployment issues than the previous, center-right ruling coalition. In addition to comprehensive tax, pension and labor reform, the second Dzurinda government, beginning in 2002, introduced comprehensive unemployment benefits reform that required work-for-welfare, job training attendance, and proof of attempts to find work. SMER has not addressed these issues, in large part because of the strong economic and job growth. It is focused instead on revising the labor code to reinvigorate the role of organized labor unions by creating legislation that is more in line with Western Europe.

¶10. (SBU) Several provisions of the proposed labor code, in particular sections dealing with overtime, seasonal work, and temporary workers, are seen as being out of touch with the on-the-ground realities faced by investors, especially in Western Slovakia. Companies are increasingly having trouble finding qualified workers, and new investments are being announced each week. The challenge of finding both skilled and unskilled workers was a consistent theme during Econoffs March 26-7 visit to six U.S. investors in Western Slovakia. While just a few years ago recruiting meant posting a notice and waiting for applicants to apply in large numbers, companies are now putting significant efforts into recruiting new employees and holding onto experience personnel. For example, Auto supplier TRW in Bytca worked through an employment agency to find employees when it started production a few months ago. Managers at U.S. auto parts supplier Visteon in Nitra are concerned about the impact of new investments in the Nitra Industrial Area on their operations as more than 5,500 employees will be needed in the next two years at the new plants that are currently under construction. In addition to making salaries more competitive, companies are looking to provide additional perks to find and keep employees.

¶11. (SBU) Companies are also relying on overtime to overcome labor shortfalls. At Sauer Danfoss in Povaska Bystrica the Human Resources director told Econoff that on average employees were earning 30 percent above their base salary due to the increased use of overtime. U.S. manufacturer Emerson decided to cap its current operations in Slovakia at 3000 employees and locate new investments in Romania due to a shortage of available workers, particularly engineers and managers, in Slovakia. The executive director at U.S. auto supplier Johnson Controls' Trenčín development center opined that new investors do not have a solid grasp of the difficulties in finding skilled workers, and expected that many would fall short of their targets unless they could attract workers from Eastern Slovakia and neighboring countries.

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¶12. (U) Comment - Although the proposed changes to the labor code have caused significant consternation throughout the business community, we expect the government will ultimately approve a watered-down version of the current proposal that will represent a reasonable compromise on the most controversial issues related to the flexibility of the labor markets. From the perspective of foreign investors, the GOS should instead be focusing its efforts on education reform, especially at the post-secondary level, to provide the education/skills that are necessary to maintain the growing manufacturing and service sectors. U.S. firms are establishing their own relationships with Slovak technical schools and universities, but such programs have been hampered by an antiquated education system leaving companies largely reliant on in-house training for employees. Promoting public/private partnerships and more interaction between U.S. and Slovak universities is also a top Embassy priority. End comment.

SILVERMAN